



**STATE OF UTAH INSURANCE DEPARTMENT**

**REPORT OF FINANCIAL EXAMINATION**

of

**WMI MUTUAL INSURANCE COMPANY**

of

Taylorsville, Utah

as of

December 31, 2019



## TABLE OF CONTENTS

SALUTATION .....	1
SCOPE OF EXAMINATION.....	1
Period Covered by Examination .....	1
Examination Procedures Employed.....	1
SUMMARY OF EXAMINATION FINDINGS AND RECOMMENDATIONS .....	2
COMPANY HISTORY .....	2
General.....	2
Dividends and Capital Contributions.....	2
Mergers and Acquisitions .....	2
MANAGEMENT & CONTROL INCLUDING CORPORATE GOVERNANCE .....	3
Board of Directors.....	3
Committees .....	3
Officers .....	3
Holding Company.....	4
Transactions and Agreements with Affiliates.....	4
TERRITORY AND PLAN OF OPERATION .....	4
GROWTH OF COMPANY .....	5
REINSURANCE.....	6
FINANCIAL STATEMENTS .....	6
BALANCE SHEET .....	7
INCOME STATEMENT .....	8
RECONCILIATION OF CAPITAL AND SURPLUS.....	9
ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS .....	10
COMMENTS ON FINANCIAL STATEMENTS .....	10
SUBSEQUENT EVENTS .....	10
ACKNOWLEDGEMENT .....	11

March 29, 2021

Honorable Jonathan T. Pike, Commissioner  
Utah Insurance Department  
4315 S. 2700 West, Ste. 2300  
Taylorsville, UT 84129

Commissioner:

Pursuant to your instructions and in compliance with Utah Code § 31A-2-204, an examination as of December 31, 2019, has been made of the financial condition and business affairs of:

**WMI MUTUAL INSURANCE COMPANY**  
Taylorsville, Utah

hereinafter referred to in this report as “the Company”, and the following report of examination is respectfully submitted.

**SCOPE OF EXAMINATION**

Period Covered by Examination

This full-scope examination of the Company was conducted by representatives of the Utah Insurance Department (Department) and covers the period of January 1, 2017 through December 31, 2019, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

Examination Procedures Employed

We conducted our examination in accordance with the *National Association of Insurance Commissioners Financial Condition Examiners Handbook* (Handbook). The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause the Company’s surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management’s compliance with Statutory Accounting Principles. The examination, however, does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Financial Statements section of this report.

This examination report includes significant findings of fact, as mentioned in Utah Code § 31A-2-204 and general information about the Company and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other insurance regulators and/or the Company.

## **SUMMARY OF EXAMINATION FINDINGS AND RECOMMENDATIONS**

There was one finding identified during the examination for inclusion in this report:

The Board of Directors (Board) has formed various sub-committees. However, there is no provision in Company bylaws allowing the Board to create such committees. Pursuant to Utah Code § 31A-5-412(1)(a), "If provided for in the articles or bylaws of a corporation, the board, by resolution adopted by a majority of the full board, may designate one or more committees."

### *Recommendation:*

*We recommend the Company amend its bylaws to authorize the Board to create one or more committees, each with at least three (3) appointed directors, in accordance with Utah Code § 31A-5-412(1). These amended bylaws shall be filed with the Department within sixty (60) days of approval by the Board in accordance with Utah Code § 31A-5-203(4).*

## **COMPANY HISTORY**

### General

Effective July 1, 1987, Western Petroleum Marketers Mutual Insurance Company was licensed by the Department as a mutual life insurance company to transact life and disability insurance. The name of the Company was changed in December 1994 to Western Mutual Insurance Company.

Upon reaching a name settlement with another insurer in California, effective December 8, 2010, the Company changed its name to WMI Mutual Insurance Company. The most recent certificate of authority was issued to the Company to transact accident & health, annuity and life business.

### Dividends and Capital Contributions

There were no policyholder dividends declared or paid during the examination period. The Company did not receive any capital contributions during the examination period.

### Mergers and Acquisitions

There were no mergers or acquisitions during the examination period.

## MANAGEMENT & CONTROL INCLUDING CORPORATE GOVERNANCE

### Board of Directors

The bylaws of the Company indicate the number of directors shall be at least five (5) but no more than fifteen (15). The following persons served as directors for the Company as of December 31, 2019:

<u>Name and Location</u>	<u>Principal Occupation</u>
Craig Eerkes <i>Kennewick, WA</i>	Sun Pacific Energy, Co. <i>President, Chief Executive Officer</i>
Craig Kellerstrass <i>Ogden, UT</i>	Kellerstrass Oil Company <i>President</i>
Benny Hodges <i>Belen, NM</i>	Hodges Oil Co., Inc. <i>Chief Executive Officer</i>
David Leo <i>Salt Lake City, UT</i>	WMI Mutual Insurance Company <i>President, Chief Executive Officer</i>
Brett Adams <i>Burley, ID</i>	Adams Petroleum, Inc. <i>Owner</i>

### Committees

Board committees and the respective committee members as of December 31, 2019 were as follows:

<b>Investment Committee</b>	<b>Audit Committee</b>	<b>Compensation Committee</b>
Benny Hodges (Chair)	Craig Kellerstrass (Chair)	Craig Eerkes (Chair)
Craig Eerkes	Brett Adams	Craig Kellerstrass
David Leo	Benny Hodges	Brett Adams

### Officers

The bylaws of the Company require the appointment of at least three principal offices: Chairman of the Board, President, and Secretary/Treasurer. The following persons served as officers of the Company as of December 31, 2019:

<b>Name</b>	<b>Title</b>
Craig Eerkes	Chairman of the Board
David Leo	President, Chief Executive Officer
Nancy Comins	Chief Financial Officer, Secretary/Treasurer

See SUBSEQUENT EVENTS section for changes to directors and officers during examination fieldwork.

### Holding Company

The Company is a mutual company and thus owned by its policyholders. On October 23, 1999, the Company formed a holding company structure, which includes its wholly owned subsidiary, WMI TPA, Inc. (WMI TPA).

### Transactions and Agreements with Affiliates

Effective March 15, 2000, the Company entered into an intercompany agreement with WMI TPA. This agreement authorizes WMI TPA to offer the Company's ancillary insurance products such as dental, vision, disability and life insurance policies. The arrangement sets up a premium collection less an administration fee.

Effective June 30, 2000, the Company entered into an intercompany services agreement with WMI TPA. This agreement authorizes WMI TPA to utilize certain resources and personnel of the Company to perform third party administration services for self-funded employee welfare benefit plans.

## **TERRITORY AND PLAN OF OPERATION**

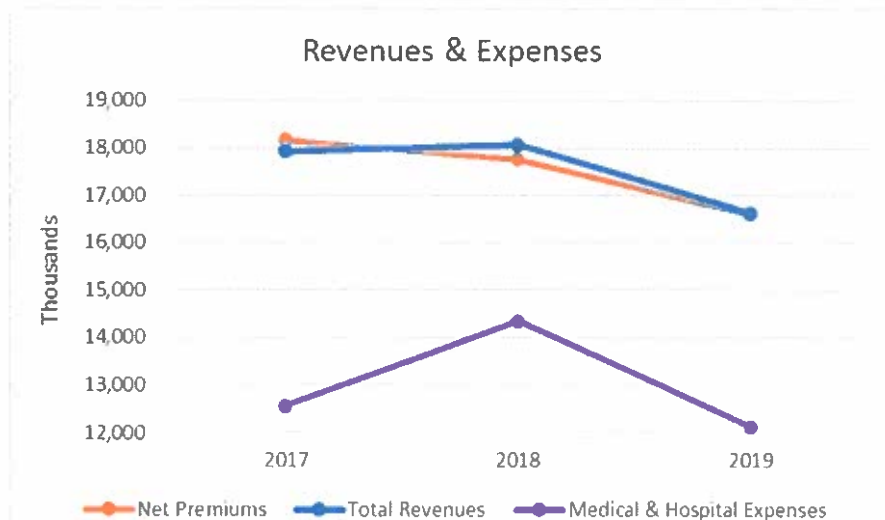
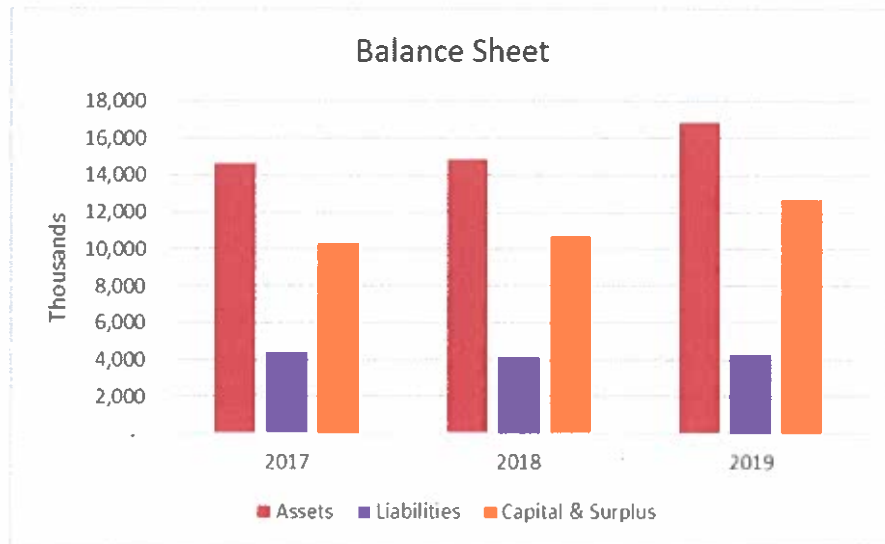
As of December 31, 2019, the Company was licensed to write business in the states of Arizona, Idaho, Montana, Nevada, New Mexico, Utah, and Washington. The Company has not sold or serviced medical insurance policies in Washington or New Mexico since 2014.

The Company offers attained age Medicare Supplement (Medigap) products in Utah, Nevada, New Mexico and Montana. An issue-age Medigap product is being marketed in Arizona.

The majority of the Company's premium is generated from a closed block of comprehensive hospital and medical plans for certain small employer groups.

## GROWTH OF COMPANY

The Company's assets and capital and surplus have increased each year during the examination period. Net income has been positive although net premium income has declined and total revenues have fluctuated since 2017 due to the loss of enrollment of small group plans.



## **REINSURANCE**

The Company does not assume any reinsurance.

Effective January 1, 2017, the Company entered into a Medical Excess Reinsurance Agreement with Maiden Reinsurance North America, Inc. (Maiden Re), a Missouri authorized reinsurer. Pursuant to the terms of the agreement, the Company retains the first \$300,000 of incurred losses per member. Maiden Re reinsures 100% of losses in excess of retention. The aggregating specific deductible was \$60,000. This agreement was for a one-year term and subsequently renewed with the same terms on January 1, 2018.

Effective January 1, 2019, the Company entered into a Medical Excess Reinsurance Agreement with Transatlantic Reinsurance Company (Trans Re), a New York authorized reinsurer. The agreement terms were identical to that of the Maiden Re agreement described above.

See the SUBSEQUENT EVENTS section for changes to the reinsurance agreement during examination fieldwork.

## **FINANCIAL STATEMENTS**

The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of the Company for the period ending December 31, 2019. The accompanying COMMENTS ON FINANCIAL STATEMENTS reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.



**WMI MUTUAL INSURANCE COMPANY  
BALANCE SHEET**

as of December 31, 2019

<u>Assets</u>	<u>Current Year</u>
Bonds	\$ 11,018,342
Common stocks	4,681,353
Cash	1,018,004
Investment income due and accrued	77,789
Uncollected premiums, agents' balances in the course of collection	10,391
Amounts recoverable from reinsurers	10,575
Receivables from parent, subsidiaries and affiliates	1,148
Aggregate write-ins for other than invested assets	52,483
Total assets	<u>\$ 16,870,085</u>
 <u>Liabilities, Capital and Surplus</u>	
Claims unpaid	\$ 2,990,206
Premiums received in advance	490,037
General expenses due or accrued	327,954
Current federal and foreign income tax payable, including interest	217,925
Net deferred tax liability	174,276
Total liabilities	<u>4,200,398</u>
 Gross paid in and contributed surplus	 1,388,964
Unassigned funds (surplus)	<u>11,280,723</u>
Total capital and surplus	<u>12,669,687</u>
Total liabilities, capital and surplus	<u>\$ 16,870,085</u>

**WMI MUTUAL INSURANCE COMPANY  
INCOME STATEMENT**

for the Year Ended December 31, 2019

	<u>Total</u>
Member Months	60,977
Net premium income	\$ 16,593,149
Change in unearned premium reserves	(185,712)
Aggregate write-ins for other health care related revenues	<u>224,455</u>
Total revenues	16,631,892
Hospital and Medical:	
Hospital/medical benefits	10,947,494
Other professional services	428,196
Prescription drugs	1,457,862
Less: Net reinsurance recoveries	<u>731,607</u>
Total hospital and medical	12,101,945
Claims adjustment expenses	188,855
General administrative expenses	<u>2,883,963</u>
Total underwriting deductions	<u>15,174,762</u>
Net underwriting gain or (loss)	1,457,130
Net investment income earned	265,404
Net realized capital gains (losses) less capital gains tax	<u>88,745</u>
Net investment gains (losses)	354,149
Net income or (loss) after capital gains, before federal income taxes	1,811,279
Federal and foreign income taxes incurred	<u>359,561</u>
Net income (loss)	<u>\$ 1,451,718</u>

WMI MUTUAL INSURANCE COMPANY  
RECONCILIATION OF CAPITAL AND SURPLUS

2017 through 2019

	2017	2018	2019
Capital and surplus, December 31, prior year	\$ 8,380,074	\$ 10,298,051	\$ 10,686,416
Net income	1,539,668	714,750	1,451,718
Change in net unrealized capital gains (losses)	203,086	(425,357)	673,467
Change in net deferred income tax	175,224	98,971	(141,914)
Capital and surplus, December 31, current year	<u>\$ 10,298,051</u>	<u>\$ 10,686,416</u>	<u>\$ 12,669,687</u>

## **ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS**

No adjustments were made to surplus as of December 31, 2019 as a result of the examination.

## **COMMENTS ON FINANCIAL STATEMENTS**

There were no comments on financial statement items as of December 31, 2019 as a result of the examination.

## **SUBSEQUENT EVENTS**

The following subsequent events occurred during examination fieldwork:

- Gerry Ramm was appointed to the Board, Investment Committee, and Compensation Committee on January 1, 2020. He resides in Soap Lake, WA, and his primary occupation is the President of Petroleum Marketers Oil Company.
- Brett Adams was appointed as Chairman of the Compensation Committee, replacing Craig Eerkes, on January 1, 2020.
- Effective January 1, 2020, the Company entered into a Medical Excess Reinsurance Agreement with Trans Re. The only change from the prior agreement was the increase of the aggregating specific deductible from \$60,000 to \$80,000.
- Nancy Comins retired as Chief Financial Officer and Secretary/Treasurer on June 30, 2020.
- Mark Bailey was appointed as Controller and Secretary/Treasurer on July 1, 2020.

## ACKNOWLEDGEMENT

T. Michael Presley, FSA, MAAA, of Risk & Regulatory Consulting, LLC (RRC), performed the actuarial testing and was supervised by John Humphries, AES, ASA, CFE, CISA, MAAA, MCM, of RRC. Stephen Skenyon, CPA, CISA, CIA, of RRC, performed the information systems testing. Malis Rasmussen, MSA, CFE, SPIR, Chief Examiner, supervised the examination. In addition, Mike Porter and Alan Monsen, Financial Examiners, participated in the examination representing the Department. They join the undersigned in acknowledging the assistance and cooperation extended during the course of the examination by officers and representatives of the Company.

Respectfully submitted,

A handwritten signature in black ink that reads "Natasha Robinson". The signature is written in a cursive, flowing style.

Natasha Robinson, CFE, PIR  
Examiner-in-Charge  
Utah Insurance Department